DOLLARS & Sense

Family Financial Education Foundation

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Protect Your 401(k) Money

Don't panic if you're still making deposits in your 401(k) account but you're seeing the numbers dwindling instead of growing. If you have to, just stop looking at it for awhile so that you're not tempted to make any rash decisions out of panic. Remember, those downward spirals are usually followed by upward climbs, sometimes quite significant climbs, so be patient. If your employer continues to offer matching funds, even in a bad economy, you don't want to lose that extra money by putting a stop to your own deposits.

How to protect your 401(k) when the company you work for is in trouble

To protect yourself and your hard-earned money, you do need to pay attention to what's going on around you and stay tuned in to clues about the financial situation of the company you work for. Be alert to layoffs and other cutbacks that indicate the company is in difficulty. If things seem to be going sour, don't hesitate to ask your employer questions about your 401(k) plan. A lot of companies tighten their belts as part of making wise decisions during difficult economic times and have every intention of honoring your retirement funds so don't panic at the first sign of conservative actions. If your employer seems unwilling to answer your questions, however, you can visit the Department of Labor. Tell them that you're afraid the company may be going under, and you just want to make sure you will have access to your 401(k) money.

It would be very upsetting if you couldn't access your 401(k), couldn't get any information about it, couldn't change your investments, or couldn't take your money out. A situation like this happens most often due to a company's bankruptcy, but it can also happen when an owner, who is also the plan's responsible party, dies without leaving provisions for someone else to take care of the 401(k). Beginning in 1999, the U.S. Department of Labor became concerned about the number of cases of this happening across the country and made it a national enforcement

(Continued on page 3)

Things to Remember during a Bad Economy

The best way to survive economic downturns is to be prepared before they happen. Do you remember that Aesop fable about the grasshopper and the ant?

One beautiful summer day, a Grasshopper was jumping and chirping and singing to its heart's content. An Ant walked slowly by him carrying a very heavy ear of corn. "Come and enjoy the day with me," said the Grasshopper, "instead of working so hard."

"I am busy storing food for the winter," said the Ant. "You should do the same."

"Winter is a long way away," said the Grasshopper, "and we have plenty of food for now. Winter may never come." But the Ant went on its way and continued its work. When winter did come and the Grasshopper had no food, he was envious as he watched the ants enjoying corn and grain every day from the stores they had collected in the summer. The Grasshopper learned an important lesson: It is best to prepare now for hard times ahead.

Unfortunately, more of us are grasshoppers than ants. That's why, in tough economic times, it is imperative that you do everything you can to protect the finances you do have.

(Continued on page 4)

Diving into the Stock Market

During the recession, you've undoubtedly heard financial gurus talking about what a good time it is to buy stock. If you've ever been tempted to give the stock market a try, you might be convinced that a bad economy is a signal for you to take that money you have in your emergency fund and try your chances on purchasing stock and see if you can make a little quick money.

If you are currently living off your savings or expect to have major expenses in the near future such as medical surgery or replacing a car, it's important that you have investments that can't lose value, such as money market accounts or CDs. Pay attention to your own sense of caution.

If you need your savings to grow, however, you can't always play it purely safe. Even though the future of the stock market is uncertain at the moment, the historical average increase of stocks over several years is about twice that of bonds. Having some of your money in the stock market can help you protect all of your money against inflation. Taking a chance on the stock market is not necessarily a bad thing if you follow some simple advice. The kind of financial risk you are prepared to take and the return on your investment that you hope to get will influence the kinds of investments you make.

Here are some suggestions that will help you stay in a comfortable risk zone—and let you sleep at night.

1. Do your research and don't invest until you have. Your first stock investments should be built on a solid foundation of knowledge and risk-free funds that will help you be assured you won't lose everything your first time out. Proper insurance coverage and a significant emergency fund that you promise not to touch should be in place before you make any investments in stock. Only when you have that in place are you ready to start investing.

2. Divide your investments into long-term and short-term options. As the old saying goes—don't put all your eggs in one basket. Investing in stocks should be viewed as another way to help you achieve your long-term financial goals, not as a get-rich-quick scheme. For money that you will need within two or three years, a solid savings account or bank CD are much more appropriate.

3. Don't invest large proportions of your money in anything that you don't feel comfortable about. Find out as much as you can about the strengths and weaknesses of the company you are considering investing money in. It really is true that there's no such thing as a free lunch or an overnight success. The bigger the promised reward, the bigger your risk. The recent news stories about people losing millions of dollars to fraudulent investment funds should be ample warning. It seems like anytime a real opportunity comes along for people to better their lifestyle, there's someone who's willing to find a way to use it to take advantage of people. There's hardly a legitimate form of investment that isn't considered fair game by the unscrupulous. Stock investing is no exception. Unfortunately, there are investment scams out there just waiting to take your hard-earned money off your hands so beware. That doesn't mean you can't try some high-risk options; just don't do it with anymore than what you could comfortably lose.

4. Make sure you know how to sell the stock when the time is right. Some tangible investments, such as antiques and gemstones may be easy to buy but selling them requires specialized assistance. You can really get stuck "holding the bag." The same goes for stocks. Be sure that you have a knowledgeable stockbroker giving you advice on how and when is the best time to sell your stock. If you want to get the most benefit from your stock-investment experience, take the time to do the legwork. It will more than reward you in the long run. But plan on holding onto your stocks for at least a decade. ■

Convert from a Traditional IRA to a Roth IRA

While a bad economy may eat into your retirement savings, it can also provide you with an unusual "opportunity" to convert your traditional IRA into a Roth IRA. While it's true that when you convert a traditional IRA to a Roth IRA, you must pay income tax on the money you roll over, if the balance in your traditional IRA has declined due to market loss, fewer dollars in your account means a smaller tax bill. You will have less tax to pay to roll it over to a Roth IRA. The big perk of Roth IRAs is that withdrawals taken after age 59 ½ are completely tax free so an economic downturn is an opportunity for you to save on taxes with a rollover and then save again on taxes when you withdraw from your Roth account after the economy has recovered. Roth IRAs are usually recommended for younger investors since they require a longer time to benefit from the compounding interest, but during a declining stock market, a Roth IRA could benefit most anyone. As long as your adjusted gross income is less than $100,000 for the year, this is an opportunity to consider. ■

Tips for Staying Physically Healthy to Help You Stay Financially Healthy

A recent survey from the American Psychological Association shows that 80% of Americans are attributing anything from headaches to heart disease to the stress caused by the current economy. More than half of Americans find themselves lying awake at night worrying. The unfortunate thing is that these kinds of health problems also take a toll on your financial health. The key to keeping stress from harming your health lies in finding a positive outlet. Here are a few, simple ways to help you save money and save your health.

1. To save money, eat out less often and cook at home using simple, fresh foods. To maintain a healthy heart, avoid salty, fatty foods.

2. Laugh more. Research shows that good, healthy laughter helps suppress stress-related hormones. So even if you don't really feel like it, find something to laugh about.

3. Don't shortcut your healthcare. Not visiting the doctor when you're ill or reducing your medication dose to cut costs won't help your health and will cost you more money in the long run. Ask your doctor about pharmaceutical companies that offer lower-cost prescription programs.

4. If you have to drop your gym membership to reduce costs, don't drop your exercise. Take walks in the neighborhood or go swimming at the community pool. Try to exercise for 30 to 60 minutes every day.

5. Avoid comfort foods. If you're one of many Americans who overeat or resort to unhealthy snacks when the stress levels rise, try chewing gum. Studies have demonstrated that chewing gum reduces stress and snacking.

6. Check your blood pressure. Many pharmacies, including those in grocery stores, have blood pressure cubicles where you can check your blood pressure for free. Regular checks will help you keep it under control.

7. Renew your interest or find new interest in the arts. Listen to music with your eyes closed and breathe slowly. Visit an art gallery during lunch or on the weekend. Spend fifteen minutes a day with a good book. All of these will help give your mind a break from worrying about daily life. ■

(Continued from page 3)

project. Since then, the Department of Labor has investigated more than 600 orphaned plans and has protected $220 million in plan assets.

A recent, small-business survey sponsored by Nationwide Financial shows that many small business owners are not fully aware of their responsibility regarding 401(k) plans. If you participate in a 401(k) plan with a small business, you may want to diplomatically ask your employer a few questions to make sure that the necessary steps are in place to transfer management of the plan if emergencies occur.

Is Borrowing from a 401(k) Plan a Good Strategy when Times are Hard?

It is rarely a good idea to borrow from your 401(k) and especially during difficult economic times. There are two big reasons for that:

1. You may have to pay back what you have borrowed. If you lose your job the loan may come due. If you are not able to pay it back and you are under age 59½, you will have to pay income tax on it plus an additional 10% penalty.

2. The money that you borrow stops compounding interest. That's money for your retirement that you will not have and will never see.

If you do lose your job, you have four options when it comes to your 401(k). Ask your FFEF counselor to help you determine the best option for you:

1. Don't change a thing. Leave your money invested in your existing plan if that is permitted.

2. Do a rollover. That means that your 401(k) dollars are taken from the existing account and deposited directly into another qualified 401(k) plan. You won't lose any of your money due to fees or penalties. This is often possible if you are leaving one company to go to another.

3. Do an indirect rollover. In this case, you must take care of rolling over your funds yourself and you run the risk of paying a penalty. Ask your FFEF counselor to explain to you what is involved with an indirect rollover.

4. Cash in your account. You will receive the vested amount of your 401(k) minus the penalties and taxes. Keep in mind that the vested amount may not be the full amount of your 401(k) as it appears on your quarterly statement. The amount you are vested usually depends on how many years you have been employed by the company. Taxes and penalties

Making the Most of Your "Liquid Savings"

It is important for every family to have "liquid savings" in a time of economic difficulty.

What are liquid savings? This is money you have saved somewhere that is easy to access if you need to. If it is in a bank account, make sure it is a bank in which your savings are federally insured, meaning your savings are insured by the federal government, usually up to $250,000, so you don't run the risk of losing your money if the bank gets into financial trouble. While these accounts don't pay the kind of increases that can be possible with other more risky funds, the idea is that you have money you can get your hands on quickly in an emergency.

The Federal Reserve sets interest rates nationwide. Sometimes they go up, sometimes they fall and sometimes they stay the same. No matter what action the Federal Reserve takes, your liquid savings account will be impacted. High rates mean you'll see more of a return on your deposits. But when times are tough and interest rates drop, you can expect less return on your money. Different savings plans offer different types of interest and that can make a big difference in how much money you accrue. You can open a savings account at any local bank or credit union and earn at least some interest.

A minimum balance may be required but this shouldn't be more than $25 or $50. Money market accounts are also available through your local bank or credit union. These usually require a higher minimum balance than a savings account, but they also earn about twice as much in interest and still allow you to write checks from the account. Be sure you fully understand your bank's policies before opening any kind of liquid savings account.

Do you know the answers to the following questions about your bank account? If not, talk to someone at the bank to find out the answers.

1. Is there a limit on the number of transfers I can make?
2. How many withdrawals can I make?
3. Are there fees charged for withdrawals?
4. What is the minimum balance required to keep my account open?
5. Are there any service fees?
6. What interest rate will my money earn?
7. What online account management options do I have? ■

(Continued from page 1)

Economic hardship can be the result of what's happening in the country; it can be the result of individual changes such as job loss or catastrophic illness; or it can be the result of natural disasters.

When tough times are caused by a bad economy countrywide, they require extra discipline to ensure that you survive the bad patch. In this newsletter, we describe actions you can take to protect your finances and actually improve things once the tough times have passed. ■

We have new business hours!

Monday-Friday:
7:00 a.m.-9:00 p.m.
Saturday:
7:00 a.m.-4:00 p.m.

It's time for Spring Cleaning!

And that includes your finances too! This month take some time to do a quick review of your budget and clean out some of the cobwebs, maybe find a few areas where you can cut back. Maybe you can even find a little something to put aside for those coming summer vacations.

Don't forget to share your wealth of knowledge with friends and family. Our budget planning programs and education are available to everyone. Call today for more information and let us help you clean up your financial life a little this season!

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If you know of someone who would benefit from this information, please pass this newsletter along.